

ROWAN COMPANIES INC  
Form 10-Q  
November 03, 2011

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-Q

R QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011

OR

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM \_\_\_\_ TO \_\_\_\_

1-5491  
Commission File Number

ROWAN COMPANIES, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

75-0759420  
(I.R.S. Employer  
Identification No.)

2800 Post Oak Boulevard, Suite  
5450 Houston, Texas  
(Address of principal executive offices)

77056-6189  
(Zip Code)

(713) 621-7800  
Registrant's telephone number, including area code

Inapplicable  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R No £

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of common stock, \$0.125 par value, outstanding at October 31, 2011, was 124,980,208.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

ROWAN COMPANIES, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In thousands, except shares)  
 (Unaudited)

	September 30, 2011	December 31, 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$892,560	\$437,479
Restricted cash	-	15,265
Receivables - trade and other	325,164	269,896
Prepaid expenses and other current assets	48,427	31,646
Deferred tax assets - net	-	36,945
Assets of discontinued operations (Note 2)	39,940	984,022
<b>Total current assets</b>	<b>1,306,091</b>	<b>1,775,253</b>
<b>PROPERTY, PLANT AND EQUIPMENT - at cost:</b>		
Drilling equipment	5,346,519	3,799,902
Construction in progress	1,171,261	1,584,802
Other property and equipment	140,542	145,698
Property, plant and equipment - gross	6,658,322	5,530,402
Less accumulated depreciation and amortization	1,310,464	1,185,880
Property, plant and equipment - net	5,347,858	4,344,522
Other assets	104,580	97,682
<b>TOTAL ASSETS</b>	<b>\$6,758,529</b>	<b>\$6,217,457</b>

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ROWAN COMPANIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS (continued)  
(In thousands, except shares)  
(Unaudited)

	September 30, 2011	December 31, 2010
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	\$45,023	\$52,166
Accounts payable - trade	95,574	66,766
Deferred revenues	39,721	7,748
Accrued compensation and related employee costs	26,765	77,926
Accrued income taxes	223,199	10,847
Accrued interest	11,016	25,962
Other current liabilities	6,692	9,804
Liabilities of discontinued operations (Note 2)	34,030	278,011
<b>Total current liabilities</b>	<b>482,020</b>	<b>529,230</b>
Long-term debt - less current maturities	1,102,935	1,133,745
Other liabilities	291,849	251,145
Deferred income taxes - net	483,202	551,027
Commitments and contingent liabilities (Note 6)	-	-
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$1.00 par value, 5,000,000 shares authorized, issuable in series:		
Series A Junior Preferred Stock, 1,500,000 shares authorized, none issued	-	-
Common stock, \$0.125 par value, 150,000,000 shares authorized; 127,548,322 shares and 126,346,627 shares issued at September 30, 2011 and December 31, 2010, respectively	15,944	15,794
Additional paid-in capital	1,470,850	1,433,999
Retained earnings	3,141,261	2,449,521
Cost of 2,584,114 and 52,408 treasury shares, respectively	(84,037 )	(1,509 )
Accumulated other comprehensive loss	(145,495 )	(145,495 )
<b>Total stockholders' equity</b>	<b>4,398,523</b>	<b>3,752,310</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$6,758,529</b>	<b>\$6,217,457</b>

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ROWAN COMPANIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except per share amounts)  
(Unaudited)

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2011	2010	2011	2010
<b>REVENUES</b>	\$234,698	\$238,559	\$664,161	\$809,239
<b>COSTS AND EXPENSES:</b>				
Direct operating costs (excluding items below)	129,767	106,941	345,558	316,849
Depreciation and amortization	50,306	35,065	129,267	102,447
Selling, general and administrative	22,629	20,640	65,172	55,258
Loss (gain) on disposals of property and equipment	14	695	(1,408 )	406
Charges to settle litigation (Note 8)	20	750	6,120	5,250
Total costs and expenses	202,736	164,091	544,709	480,210
<b>INCOME FROM OPERATIONS</b>	31,962	74,468	119,452	329,029
<b>OTHER INCOME (EXPENSE):</b>				
Interest expense, net of interest capitalized	(4,233 )	(8,130 )	(17,001 )	(19,061 )
Interest income	277	449	338	821
Other - net	(458 )	(307 )	(1,177 )	2
Total other income (expense) - net	(4,414 )	(7,988 )	(17,840 )	(18,238 )
<b>INCOME FROM CONTINUING OPERATIONS</b>				
<b>BEFORE INCOME TAXES</b>	27,548	66,480	101,612	310,791
Provision (benefit) for income taxes	(3,876 )	6,338	(1,010 )	78,270
<b>NET INCOME FROM CONTINUING OPERATIONS</b>	31,424	60,142	102,622	232,521
<b>DISCONTINUED OPERATIONS (Note 2):</b>				
Income (loss) from discontinued operations, net of tax	(1,213 )	7,029	1,047	(9,811 )
Gain on sale of discontinued operations, net of tax	163,598	-	588,071	-
Discontinued operations, net of tax	162,385	7,029	589,118	(9,811 )
<b>NET INCOME</b>	\$193,809	\$67,171	\$691,740	\$222,710
<b>INCOME (LOSS) PER SHARE - BASIC:</b>				
Income from continuing operations	\$0.25	\$0.52	\$0.82	\$2.03
Discontinued operations	\$1.30	\$0.06	\$4.69	\$(0.09 )
Net income	\$1.55	\$0.58	\$5.51	\$1.95
<b>INCOME (LOSS) PER SHARE - DILUTED:</b>				
Income from continuing operations	\$0.25	\$0.51	\$0.81	\$2.00
Discontinued operations	\$1.28	\$0.06	\$4.64	\$(0.08 )
Net income	\$1.53	\$0.57	\$5.45	\$1.92



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ROWAN COMPANIES, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In thousands)  
 (Unaudited)

	Nine Months Ended September 30,	
	2011	2010
<b>CASH PROVIDED BY (USED IN) OPERATIONS:</b>		
Net income	\$691,740	\$222,710
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	150,236	139,303
Material charges (Note 2)	-	42,024
Deferred income taxes	(30,880 )	12,246
Provision for pension and postretirement benefits	12,059	29,112
Stock-based compensation expense	14,264	11,330
Gain on disposals of property, plant and equipment	(3,932 )	575
Gain on sale of manufacturing operations	(662,448 )	-
Gain on sale of land drilling operations	(214,803 )	-
Postretirement benefit claims paid	(2,188 )	(2,474 )
Contributions to pension plans	(53,169 )	(49,688 )
Changes in current assets and liabilities:		
Receivables - trade and other	(41,570 )	(23,825 )
Inventories	(104,468 )	27,336
Prepaid expenses and other current assets	(3,538 )	(7,538 )
Accounts payable	60,785	(9,981 )
Accrued income taxes	212,352	(33,274 )
Deferred revenues	44,929	(39,326 )
Billings in excess of costs and estimated profits on uncompleted contracts	29,493	(17,147 )
Other current liabilities	(7,449 )	(10,748 )
Net changes in other noncurrent assets and liabilities	36,596	(10,354 )
Net cash provided by operations	128,009	280,281
<b>CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:</b>		
Capital expenditures	(1,155,108)	(316,561 )
Proceeds from sale of manufacturing operations	1,050,720	-
Proceeds from sale of land drilling operations	509,818	-
Decrease in restricted cash	15,265	-
Net cash used in acquisition of SKDP	-	(17,681 )
Proceeds from disposals of property, plant and equipment	5,478	2,953
Net cash provided by (used in) investing activities	426,173	(331,289 )
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:</b>		
Proceeds from borrowings, net of issue costs	-	395,517
Repayments of borrowings	(38,412 )	(96,061 )
Payments to acquire treasury stock	(80,924 )	-
Excess tax benefits from stock-based compensation	5,128	(42 )
Proceeds from stock options and other	15,107	4,675
Net cash (used in) provided by financing activities	(99,101 )	304,089

INCREASE IN CASH AND CASH EQUIVALENTS	455,081	253,081
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	437,479	639,681
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 892,560	\$ 892,762

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ROWAN COMPANIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(In thousands)  
(Unaudited)

	Shares of common stock outstanding	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance, December 31, 2009	113,833	\$14,237	\$1,078,337	\$2,169,526	\$(1,409 )	\$ (150,321 )	\$ 3,110,370
Stock issued in acquisition of SKDP	11,725	\$1,466	\$336,441				337,907
Stock issued under share-based compensation plans	636	89	4,645	-	(2,577 )	-	2,157
Stock-based compensation	-	-	10,469	-	-	-	10,469
Excess tax benefit from stock-based compensation plans	-	-	(42 )	-	-	-	(42 )
Net income	-	-	-	222,710	-	-	222,710
Balance, September 30, 2010	126,194	\$15,792	\$1,429,850	\$2,392,236	\$(3,986 )	\$ (150,321 )	\$ 3,683,571
Balance, December 31, 2010	126,294	\$15,794	\$1,433,999	\$2,449,521	\$(1,509 )	\$ (145,495 )	\$ 3,752,310
Stock issued under share-based compensation plans	1,178	150	14,957	-	(1,604 )	-	13,503
Shares reacquired	(2,508 )	-	-	-	(80,924 )	-	(80,924 )
Stock-based compensation	-	-	16,766	-	-	-	16,766
Excess tax benefit from	-	-	5,128	-	-	-	5,128

stock-based  
compensation  
plans

Net income	-	-	-	691,740	-	-	691,740
Balance, September 30, 2011	124,964	\$ 15,944	\$ 1,470,850	\$ 3,141,261	\$(84,037 )	\$( 145,495 )	\$ 4,398,523

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – General

The condensed consolidated financial statements of Rowan Companies, Inc. (“Rowan” or the “Company”) included in this Form 10-Q have been prepared without audit in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the Securities and Exchange Commission. Certain information and notes have been condensed or omitted as permitted by those rules and regulations. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010.

Rowan believes the accompanying unaudited condensed consolidated financial statements contain all adjustments, which are of a normal recurring nature unless otherwise noted, necessary for a fair statement of the results for the interim periods presented. Rowan’s results of operations and cash flows for the interim periods are not necessarily indicative of results to be expected for the full year.

In June and September 2011, the Company completed the sales of its manufacturing and land drilling operations, respectively. Our manufacturing operations were previously reported as the “Drilling Products and Systems” and the “Mining, Forestry and Steel Products” segments, and our land drilling operations were previously reported as a component of our “Drilling Services” segment. The Company does not currently segment its remaining offshore drilling business for reporting purposes. Results of manufacturing and land drilling operations have been reclassified to discontinued operations for all periods presented (see Note 2).

Note 2 – Discontinued Operations

On June 22, 2011, the Company completed the sale of its wholly owned manufacturing subsidiary, LeTourneau Technologies, Inc. (“LeTourneau”), at a price of \$1.1 billion in cash, less a post-closing working capital adjustment in the amount of \$46.7 million, and recognized a gain on sale of \$660.9 million (\$424.5 million, net of tax) in the second quarter of 2011. The operations of LeTourneau have been included in “Discontinued operations, net of tax,” in the Condensed Consolidated Statements of Income for all periods presented.

In connection with the sale, the Company entered into certain other agreements with LeTourneau including a facilities lease agreement, an employee services agreement, and an amendment to the construction contract for the Joe Douglas drilling rig in order for the Company to direct the completion of construction, commissioning and delivery of such rig. The lease and employee services agreements shall terminate at the earliest of (i) 120 days following completion of construction, (ii) one year following the Closing Date or (iii) the effective date of any other termination of the lease or employee services agreements pursuant to the agreements. Costs incurred in connection with the facilities lease and employee services agreements will be capitalized as part of the cost of the rig.

On September 1, 2011, the Company completed the sale of its land drilling services business for \$510 million in cash, plus an estimated working capital adjustment of approximately \$27 million, and recognized a gain on sale of approximately \$214.8 million (\$155.0 million, net of tax) in the third quarter of 2011. The results of land drilling services have been reclassified to discontinued operations for all periods presented.

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The following table sets forth the components of “Discontinued operations, net of tax,” for the three and nine months ended September 30, 2011 and 2010 (in thousands):

	2011			2010		
	Manufacturing	Drilling	Total	Manufacturing	Drilling	Total
Three months ended September 30:						
Revenues	\$-	\$35,804	\$35,804	\$147,998	\$51,388	\$199,386
Pretax income (loss)	\$(8,449 )	\$6,429	\$(2,020 )	\$8,324	\$8,423	\$16,747
Provision (benefit) for taxes on income	(312 )	(495 )	(807 )	6,721	2,997	9,718
Income (loss) from discontinued operations, net of tax	(8,137 )	6,924	(1,213 )	1,603	5,426	7,029
Pretax gain on sale of discontinued operations	9,571	214,803	224,374	-	-	-
Provision for tax on gain on sale	990	59,786	60,776	-	-	-
Gain on sale of discontinued operations, net of tax	8,581	155,017	163,598	-	-	-
Discontinued operations, net of tax	\$444	\$161,941	\$162,385	\$1,603	\$5,426	\$7,029
	Manufacturing	Drilling	Total	Manufacturing	Drilling	Total
Nine months ended September 30:						
Revenues	\$224,488	\$128,318	\$352,806	\$411,178	\$139,969	\$551,147
Pretax income (loss)	\$(9,399 )	\$16,083	\$6,684	\$(24,194 )	\$14,696	\$(9,498 )
Provision (benefit) for taxes on income	2,694	2,943	5,637	(4,926 )	5,239	313
Income (loss) from discontinued operations, net of tax	(12,093 )	13,140	1,047	(19,268 )	9,457	(9,811 )

operations, net of  
tax

Pretax gain on sale  
of

discontinued  
operations

670,448	214,803	885,251	-	-	-
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Provision for tax  
on gain on sale

237,394	59,786	297,180	-	-	-
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Gain on sale of  
discontinued

operations, net of  
tax

433,054	155,017	588,071	-	-	-
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Discontinued  
operations, net of  
tax

\$420,961	\$168,157	\$589,118	\$(19,268 )	\$9,457	\$(9,811 )
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During the first quarter of 2010, the Drilling Products and Systems Manufacturing segment performed an assessment of its Houston-based raw materials and supplies inventory. As a result, the Company increased its inventory valuation reserve by approximately \$42.0 million and recorded a corresponding charge to its operations during the period to reflect a reduction in the estimated realizable value of items that were deemed to be nonconforming or slow-moving. Such amount is included in discontinued operations for manufacturing for the nine months ended September 30, 2010.

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The following assets and liabilities have been segregated and included in “Assets of discontinued operations” and “Liabilities of discontinued operations,” as appropriate, in the Condensed Consolidated Balance Sheets at September 30, 2011, and December 31, 2010 (in thousands):

	September 30, 2011			December 31, 2010		
	Manufacturing	Drilling	Total	Manufacturing	Drilling	Total
Cash and cash equivalents	\$-	\$-	\$-	\$-	\$-	\$-
Receivables - trade and other	-	-	-	106,705	41,280	147,985
Inventories - raw materials and supplies	-	-	-	277,527	-	277,527
Inventories - work-in-progress	-	-	-	70,114	-	70,114
Inventories - finished goods	-	-	-	212	-	212
Prepaid expenses and other current assets	-	-	-	37,368	332	37,700
Property and equipment, net	-	-	-	137,624	311,291	448,915
Other assets	22,111	17,829	39,940	1,569	-	1,569
Assets of discontinued operations	\$22,111	\$17,829	\$39,940	\$631,119	\$352,903	\$984,022
Accounts payable - trade	\$-	\$-	\$-	\$44,223	\$5,876	\$50,099
Deferred revenues	20,122	-	20,122	143,950	1,748	145,698
Billings in excess of costs and estimated profits on uncompleted contracts	-	-	-	7,915	-	7,915
Accrued compensation and related costs	-	-	-	20,217	2,738	22,955
Other current liabilities	10,208	3,700	13,908	47,737	3,607	51,344
Liabilities of discontinued operations	\$30,330	\$3,700	\$34,030	\$264,042	\$13,969	\$278,011

In connection with the sale of LeTourneau, the Company took ownership of a land rig that LeTourneau was constructing on behalf of a customer, plus a related customer deposit. The Company is holding the asset for sale. The asset and related deposit are classified as other assets and deferred revenues, respectively, at September 30, 2011, in the table above.

Note 3 – Earnings Per Share

A reconciliation of basic and diluted shares for the three and nine months ended September 30, 2011 and 2010 follows (in thousands):

	Three months ended Sept.		Nine months ended Sept.	
	30, 2011	30, 2010	30, 2011	30, 2010
Average common shares outstanding - basic	125,237	116,721	125,546	114,265
Effect of dilutive securities - stock-based compensation	1,207	1,728	1,410	1,759

Average common shares - diluted	126,444	118,449	126,956	116,024
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There were no adjustments to net income required for purposes of computing diluted earnings per share. Net income per share may not equal the sum of per share earnings from continuing and discontinued operations due to roundings.

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Options and other potentially dilutive securities are antidilutive and excluded from the dilutive calculations when their exercise or conversion price exceeds the average stock market price during the period. The following table sets forth the shares excluded from the diluted calculations for the three and nine months ended September 30, 2011 and 2010, because they were antidilutive. Such securities could potentially dilute earnings per share in the future (in thousands):

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2011	2010	2011	2010
Employee and director stock options	42	163	42	163
Stock appreciation rights and other	314	179	257	173
Total potentially dilutive shares	356	342	299	336

## Note 4 – Pension and Other Postretirement Benefits

Rowan sponsors defined benefit pension plans covering substantially all of its employees, and provides health care and life insurance benefits upon retirement for certain employees.

During the three months ended September 30, 2011, the Company recognized a pension curtailment gain of approximately \$12 million in connection with the sale of its land drilling division. Such gain is classified within discontinued operations. Net periodic pension cost recognized for the three and nine months ended September 30, 2011 and 2010 included the following components (in thousands):

Three months ended Sept. 30,